

**CITY OF NEW MARKET, TENNESSEE**

**FINANCIAL STATEMENTS**

**JUNE 30, 2015**

**CITY OF NEW MARKET, TENNESSEE**  
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**CITY OF NEW MARKET, TENNESSEE**  
**CITY OFFICIALS**  
**June 30, 2015**

<b>MAYOR:</b>	Beau Tucker
<b>ALDERMEN:</b>	Maurice Solomon Frankie Solomon Carolyn Williams Ross Cunningham
<b>RECORDER:</b>	Gloria Larrance
<b>CITY ATTORNEY:</b>	Doug Drinnon
<b>CITY COURT CLERK:</b>	Diana Elkins Katlin Maple
<b>CITY JUDGE:</b>	Gene Rogers
<b>POLICE CHIEF:</b>	Raymond Raper

# DAVID M. ELLIS

*Certified Public Accountant*

*Member, American Institute of  
Certified Public Accountants*

*Member, Tennessee Society of  
Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Aldermen  
City of New Market  
New Market, Tennessee

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities and each major fund of the City of New Market, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of New Market, Tennessee's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the City of New Market, Tennessee, as of June 30, 2015, and the respective changes in financial position, and where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Market, Tennessee's basic financial statements. The supplementary information on page 1 and on pages 22-26 is presented for purposes of additional analysis and is not a required part of basic financial statements.

The supplementary information on page 1 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

The supplementary information on page 22-26 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated August 24, 2017, on my consideration of the City of New Market, Tennessee's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of New Market, Tennessee's internal control over financial reporting and compliance.



David M. Ellis, CPA  
Greeneville, Tennessee  
August 24, 2017

**CITY OF NEW MARKET, TENNESSEE  
MANAGEMENT'S DISCUSSION & ANALYSIS  
For the Year Ended, June 30, 2015**

As management of the City of New Market, Tennessee (i.e., the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the year ended June 30, 2015. We encourage readers to consider this information in conjunction with the basic financial statements, the notes to the financial statements and other supplementary information which has been provided.

**Financial Highlights**

Key financial highlights for the year ended June 30, 2015 are as follows:

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$238,598.
- The City's total net position decreased \$(34,111) during the current year.
- As of June 30, 2015, the City's General Fund reported a fund balance of \$124,910 which was a \$6,469 increase over the prior year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements 2) fund financial statements and 3) notes to the basic financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, with the difference between these reported as net position. Over time, increases or decreases in net position serves as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net positions changed during the most recent year. All changes in net positions are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, fire, police, state street aid, recreation, and the drug fund operations.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The City uses several funds to account for a range of financial transactions. The City's major governmental fund is the General Fund.

## **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information may be useful in evaluating the City's near-term financial requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and activities.

The City maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is always considered to be a major fund. Data for the other remaining funds, which are the State Street Aid Fund and Drug Fund, are presented in a single presentation. The City adopts an annual budget for its governmental funds and budgetary comparison information is located in the basic financial statements or in supplementary information.

## **Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## **Required & Other Supplementary Information**

In addition to the basic financial statements and accompanying notes, additional supplementary information can be found in sections of this report.

## **Government-Wide Financial Analysis**

The City presents its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements-and Management's Discussion and Analysis (MD & A) - for state and local governments.

As noted earlier, net position changes over time and serves as a useful indicator of the City's financial position. In the case of the City, its overall net position decreased \$34,111 in the current year.

The largest portion of the City's net position reflects its investment in capital assets (e.g., land, buildings, vehicles and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The restricted section of the City's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted is a negative number which lowers the amount that is actually available for restricted assets. This would make it difficult for the government to meet ongoing obligations to its citizens and creditors.

At the end of the current fiscal year, the City is not able to report positive balances in all three categories of net position.

The City of New Market's net position and changes in net position are presented below:

	<b>Governmental Activities</b>		
	2015	2014	Change
<b>Assets</b>			
Current & Other Assets	\$ 127,420	\$ 143,494	\$ (16,074)
Capital Assets (net)	324,670	366,125	(41,455)
<b>Total Assets</b>	<b>452,090</b>	<b>509,619</b>	<b>(57,529)</b>
<b>Liabilities</b>			
Current Liabilities	19,569	36,127	(16,558)
Other Liabilities	204,585	201,251	3,334
<b>Total Liabilities</b>	<b>224,154</b>	<b>237,378</b>	<b>(13,224)</b>
<b>Net Position</b>			
Net Investment in Capital Assets	324,670	366,125	(41,455)
Restricted	194,882	170,158	24,724
Unrestricted	(280,954)	(263,574)	(17,380)
<b>Total Net Position</b>	<b>\$ 238,598</b>	<b>\$ 272,709</b>	<b>\$ (34,111)</b>

The table below provides a summary of the City's changes in net position for 2015 and 2014:

	<b>Governmental</b>		
	2015	2014	Change
<b>Revenue</b>			
Charges for Services	\$ 96,561	\$ 126,546	\$ (29,985)
Operating Grants/Contributions	39,778	37,243	2,535
In-lieu of Tax	15,461	14,759	702
Wholesale Beer Tax	14,858	14,325	533
Local Sales Tax	173,185	153,519	19,666
Income Tax	12,730	40,687	(27,957)
Other Taxes	131	136	(5)
Interest Earned	13	-	13
Insurance Reimbursement	-	45,651	(45,651)
Miscellaneous	22,278	26,081	(3,803)
<b>Total Revenue</b>	<b>374,995</b>	<b>458,947</b>	<b>(83,952)</b>
<b>Expenses</b>			
General Government	131,326	104,280	27,046
Public Safety - Police/Fire	160,549	142,741	17,808
Drug Fund Operations	-	1,513	(1,513)
Public Works	65,619	69,015	(3,396)
State Street Aid	21,286	32,321	(11,035)
Sanitation	-	-	-
City Court	25,870	31,365	(5,495)
Recreation	4,456	11,514	(7,058)
<b>Total Expenses</b>	<b>409,106</b>	<b>392,749</b>	<b>16,357</b>
<b>Change in Net Position</b>	<b>(34,111)</b>	<b>66,198</b>	<b>(100,309)</b>
<b>Beginning Net Position</b>	<b>272,709</b>	<b>206,511</b>	<b>66,198</b>
<b>Ending Net Position</b>	<b>\$ 238,598</b>	<b>\$ 272,709</b>	<b>(34,111)</b>

### **General Government**

Includes the executive, legislative and judicial branches of the City. Also included are the municipal building operations and its maintenance.

### **Public Safety**

Includes all activities of the police department and hydrant upkeep. The public safety fund also provides funding to the New Market Volunteer Fire Department.

### **Drug Enforcement**

Includes activities to eradicate illegal drug use.

### **Public Works**

Includes the operation and maintenance of streets, sidewalks, alleys, and roads.

### **State Street Aid**

Includes using the gas taxes that are restricted for the maintenance of the City's roads, sidewalks and streets.

### **Recreation**

Includes activities to maintain the parks.

### **Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

### **Governmental Funds**

The focus of the City's governmental funds is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government's net resources available for spending in the next fiscal year.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$130,513. In the governmental funds revenues and other sources totaled \$374,996 while expenditures totaled \$364,318 resulting in a \$10,678 increase to fund balance.

### **General Fund Budgetary Highlights**

Actual revenues were under final budgeted revenues by \$23,103 and actual expenditures were under final budgeted expenditures by \$29,572.

### **Capital Assets**

The City's investment in capital assets for its governmental activities as of June 30, 2015, totaled \$324,670 (net of accumulated depreciation). The investment in capital assets includes land, buildings, machinery and equipment, and vehicles. A summary of the capital assets are as follows:

	<b>Governmental</b>		<b>Change</b>
	<b><u>2015</u></b>	<b><u>2014</u></b>	
<b>Capital Assets</b>			
Land	\$ 69,474	\$ 69,474	\$ -
Buildings and Improvements	119,226	128,651	(9,425)
Machinery and Equipment	83,665	80,268	3,397
Vehicles	52,305	87,732	(35,427)
<b>Total Capital Assets (net)</b>	<b><u>\$ 324,670</u></b>	<b><u>\$ 366,125</u></b>	<b><u>\$ (41,455)</u></b>

**General Fund Budget**

The budget for the City is prepared according to the laws of Tennessee and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. No budget amendments were enacted for the fiscal 2014-2015 year.

**Debt Administration**

The City has a debt to the Internal Revenue Service for past unpaid payroll taxes dating back to 2010 when the former city recorder failed to remit payroll taxes when due and payable. A payment plan has been established at an amount of \$1,000 per month. As of June 30, 2015, \$216,585 remains on this debt.

**Contacting the City's Financial Management**

This report is designed to provide those interested with a general overview of the City's finances. If you have questions about this report or need additional information, contact the City Recorder at the City of New Market, P.O. Box 300, New Market, Tennessee 37820.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2015**

	<b>Governmental Activities</b>	
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash & Cash Equivalents	\$ 78,400	
Receivables: Due from other governmental units	49,020	
Total Current Assets		\$ 127,420
<b>Restricted Assets</b>		
Cash & Cash Equivalents	4,209	
Due From Other Governmental Units	6,454	
Total Restricted Assets		10,663
<b>Capital Assets Not Being Depreciated</b>		
Land	69,474	
Total Capital Assets Not Being Depreciated		69,474
<b>Capital Assets Net of Depreciation</b>		
Buildings	119,226	
Machinery and Equipment	83,665	
Vehicles	52,305	
Total Capital Assets Net of Depreciation		255,196
<b>TOTAL ASSETS</b>		<b>462,753</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts Payable	4,082	
Accrued Liabilities	3,487	
Total Current Liabilities		7,569
<b>Long Term Liabilities</b>		
Payroll Taxes	216,585	
Total Long Term Liabilities		216,585
<b>TOTAL LIABILITIES</b>		<b>224,154</b>
<b>NET POSITION</b>		
Net Investment in Capital Assets	324,670	
Restricted		
Drug Enforcement Fund	4,209	
State Street Aid	190,673	
Unrestricted	(280,954)	
<b>TOTAL NET POSITION</b>		<b>\$ 238,598</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF ACTIVITIES**  
**For the Year ended June 30, 2015**

Functions/Programs	Expenses	PROGRAM REVENUES			Expenses/Revenues Changes in Net Position
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities
<b>Primary Government</b>					
Governmental Activities:					
General Government	\$ 131,326	\$ 21,239	\$ -	\$ -	\$ (110,087)
Public Safety-Police/Fire	160,549	71,113	-	-	(89,436)
Public Works	65,619	-	-	-	(65,619)
Cultural and Recreational	4,456	-	-	-	(4,456)
State Street Aid	21,286	-	39,778	-	18,492
Drug Enforcement	-	4,209	-	-	4,209
City Court	25,870	-	-	-	(25,870)
Total Governmental Activities	409,106	96,561	39,778	-	(272,767)
<b>Change in Net Position</b>					(272,767)
<b>General Revenues</b>					
Sales Tax					173,185
Beer Tax					14,858
Income Tax					12,730
TVA Replacement Tax					15,461
Telecommunications Sales Tax					131
Cable Franchise Fee					8,354
Interest					13
Miscellaneous					13,924
<b>Total General Revenues</b>					238,656
<b>Increase (Decrease) in Net Position</b>					(34,111)
<b>Net Position-Beginning</b>					272,709
<b>Net Position-Ending</b>					<b>\$ 238,598</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2015**

	General Fund	Drug Fund	Total Governmental Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 78,400	\$ -	\$ 78,400
Receivables:			
Due From Other Governmental Units	49,020	-	49,020
Restricted Assets:			
Cash and Cash Equivalents	-	4,209	4,209
Due From Other Governmental Funds	6,454	-	6,454
<b>Total Assets</b>	<b>\$ 133,874</b>	<b>\$ 4,209</b>	<b>\$ 138,083</b>
<b>LIABILITIES</b>			
Accounts Payable	4,476	-	4,476
Accrued Liabilities	3,094	-	3,094
<b>Total Liabilities</b>	<b>7,570</b>	<b>-</b>	<b>7,570</b>
<b>FUND BALANCES</b>			
Non-spendable	-	-	-
Committed	-	-	-
Assigned	-	-	-
Restricted	190,673	4,209	194,882
Unassigned	(64,369)	-	(64,369)
<b>Total Fund Balances</b>	<b>126,304</b>	<b>4,209</b>	<b>130,513</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 133,874</b>	<b>\$ 4,209</b>	<b>\$ 138,083</b>

Amounts reported for governmental activities in the statement of net position are different because:

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 130,513</b>
Long-term liabilities, including payroll taxes payable are not due and payable in the current period and therefore are not recorded in the funds.	(216,585)
Capital assets used in governmental activities of \$746,956 net of accumulated depreciation of \$422,286 are not current financial resources and, therefore, are not reported in the Governmental Fund.	324,670
<b>Net Position of Governmental Activities</b>	<b>\$ 238,598</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2015**

	<b>General Fund</b>	<b>Drug Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Local taxes	\$ 86,373	\$ -	\$ 86,373
Intergovernmental Revenue	192,210	-	192,210
Fines	71,113	-	71,113
Interest	13	-	13
Miscellaneous Revenue	12,724	-	12,724
Cable TV Franchise Tax	8,354	-	8,354
Drug Fund	-	4,209	4,209
Total Revenues	<u>370,787</u>	<u>4,209</u>	<u>374,996</u>
<b>EXPENDITURES</b>			
General Government	118,027	-	118,027
Public Safety-Police/Fire	143,683	-	143,683
Public Works	62,530	-	62,530
Cultural and Recreational	897	-	897
State Street Aid	13,311	-	13,311
City Court	25,870	-	25,870
Drug Fund	-	-	-
Total Expenditures	<u>364,318</u>	<u>-</u>	<u>364,318</u>
<b>Net Change in Fund Balances</b>	<b>6,469</b>	<b>4,209</b>	<b>10,678</b>
<b>Fund Balances - Beginning</b>	<b>118,441</b>	<b>1,394</b>	<b>119,835</b>
<b>Fund Balances - Ending</b>	<u><u>\$ 124,910</u></u>	<u><u>\$ 5,603</u></u>	<u><u>\$ 130,513</u></u>

Amounts reported for governmental activities in the statement of net position are different because:

**Net Change in Fund Balances** **\$ 10,678**

Repayment of long-term liabilities, including payroll taxes payable are expenditures in the governmental funds, but the repayments reduce long-term liabilities in the statement of net position. (3,334)

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$0) exceeds depreciation expense (\$41,455) in the period. (41,455)

Change in net assets of governmental activities \$ (34,111)

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General Statement**

The City of New Market, Tennessee (the “City”) was incorporated on June 1, 1977 under the laws and provisions of the state of Tennessee. The City operates under a Mayor-Aldermanic form of government. The City provides the following services-Public Safety- Police and Fire, State Street Aid, Sanitation, Public Works, General and Administrative Services, Recreation, and City Court services.

The City’s financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units. The Governmental Accounting Standard Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of these notes to the basic financial statements. In determining the financial reporting entity, the City has no component units at June 30, 2015 over which the City exercises significant influence.

**B. Basis of Presentation Government-wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and Statement of Activities) report information on the reporting government as a whole. They include all funds of the reporting entity. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. The statement of activities demonstrates to the degree to which direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Taxes and other items are reported as general revenues. The City does not allocate indirect costs to a specific function or segment.

**Fund Financial Statements**

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental/enterprise fund are at least 10 percent of the corresponding total for all fund of that category type.

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental/enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the City are described as follows:

**Governmental Funds**

General Fund – The General Fund is the primary operating fund of the City and is classified as a major fund. It is used to account to for all activities except those legally or administratively required to be accounted for in other funds. State Street Aid revenues and expenditures are accounted for in the General Fund but separated to maintain their integrity.

Special Revenue Funds – The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The special revenue fund is the Drug Fund.

**Major & Non-major Funds**

The funds are further classified as major or non-major as follows:

**Funds Major:**

General Fund – See above for description.

**Funds Non-major:**

Drug Fund – Accounts for revenues and expenditures relating to drug fund operations.

**C. Measurement Focus & Basis of Accounting**

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

**Measurement Focus**

On the government-wide Statement of Net Position and the Statement of Activities, governmental activities are presented using the economic resources measurement focus and defined below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balances as their measure of available spendable financial resources at the end of the period.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities, governmental

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

activities are presented using the accrual basis of accounting. As a result, revenues are recognized when earned and expenses are recorded when the liabilities are incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within 60 days after year end.

Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

**D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**Cash & Cash Equivalents**

For the purpose of the Statement of Net Position, “cash & cash equivalents” includes all demand and savings accounts of the City. The City has one certificate of deposit.

**Interfund Receivables & Payables**

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between the funds. Those related to goods and services type are classified as “due to and due from other funds.” Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

**Receivables**

In the government-wide financial statements, receivables consist of all revenues earned and not yet received. Allowance for uncollectible accounts is based upon historical trends and the periodic ageing of accounts receivable. Major receivable balances for the governmental activities include state shared taxes, intergovernmental revenues and fines.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as state shared taxes and intergovernmental revenues since they are both usually measurable and available. Nonexchange transactions collectible, but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government wide financial statements in accordance with the accrual basis.

**Capital Assets**

Capital assets are reported in the government activities column of the government-wide statement of net position. The assets are not reported in the fund financial statements. The City capitalizes assets with a cost of \$500 or more. The assets are recorded at cost except for donated assets which are valued at their estimated fair market value as of the date the asset is received. Major repairs that extend an asset’s life are also capitalized. Land is considered a nondepreciable asset

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

along with land improvements. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	30 years
Machinery and Equipment	10 years
Vehicles	10 years

**Fund Financial Statements**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

**Restricted Assets**

Restricted assets include cash in banks and receivables which are restricted because their use is limited by laws, grant agreements, or debt service requirements.

**Compensated Absences**

The City's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as a long-term debt in the government-wide financial statements while the current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred. The City provides sick leave that accrues at one-half day per month for full-time employees only. Two weeks of annual leave may be earned by employees depending on their years of service; however, this leave is forfeited if not taken by year end.

**Net Position and Fund Balance**

In the government-wide financial statements, equity is classified as net position and displayed in three components:

- 1) Net Investment in Capital Assets – Consists of capital assets including restricted capital assets (net of accumulated depreciation) and reduced by the outstanding borrowings attributable to the acquisition, construction or improvement of those assets.
- 2) Restricted Net Position – Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation. The City's policy is generally to use restricted net position first, as appropriate opportunities arise.
- 3) Unrestricted Net Position – All other net positions that do not meet the definition of "restricted" or "net investment in capital assets."

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

Governmental fund equity is classified as fund balance. Fund balances are classified into the following categories:

- Nonspendable fund balances comprise those amounts that are legally or contractually required to remain intact.
- Restricted fund balances comprise those amounts constrained to be used for a specific purpose by external parties, constitution provisions, or enabling legislation.
- Committed fund balances comprise those amounts constrained by the government itself using its highest level of authority.
- Assigned fund balances are amounts intended to be used for a specific purpose by the governing body through action other than the highest level of authority.
- Unassigned fund balances are any amounts other than those described above and are available for any purpose.

**Net Position and Fund Balance Flow Assumptions**

When outlays for a particular purpose are funded from both restricted and unrestricted resources, a flow assumption must be made about the order in which the resources are considered to be applied. This City's policy is that when both restricted and unrestricted resources are available for expenditure, restricted resources should be spent first unless legal requirements disallow it. When outlays are incurred for purposes for which amounts in any unrestricted fund balance classification could be used, committed funds are to be spent first, assigned funds second, and unassigned funds last.

The City's highest level of decision-making authority is the Board of Mayor and Alderman. This board may establish, modify, or rescind committed or assigned fund balances by majority vote. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it is the City's policy to use unassigned resources first, then assigned and committed resources as needed. When both restricted and unrestricted fund balances are available for use, it is the City's policy to use restricted fund balance first, then use unrestricted fund balance as stated above.

**E. Revenues, Expenditures, & Expenses**

**Taxes/Other Revenue**

Those revenues susceptible to accrual are state shared sales tax, beer taxes, gas taxes, and income taxes. Permits, fines, penalties and other revenues are not susceptible to accrual because they are not generally measurable until received in cash.

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for governmental activities. In the fund financial statements, expenditures are classified by function and further classified as to current, debt service and capital outlay.

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

**Interfund Transfers**

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Interfund notes receivable/payable" and are offset by a fund balance reserve account. Repayments from funds that initially paid for them are not presented in the financial statements. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers.

**F. Use of Estimates**

In preparing the City's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, & ACCOUNTABILITY**

**A. Fund Accounting Requirements**

The City complies with regulations requiring the use of separate funds. The legally required funds used by the City include the following:

- General Fund
- Drug Fund

The City accounts for its State Street Aid revenues and expenses in the general fund while still maintaining its integrity of the resources as allowed under Tennessee Code Annotated.

**B. Budgetary Information**

The City adopts annual budgets consistent with generally accepted accounting principles for all funds. The Board of Mayor and Aldermen approve any amendments to these funds and all annual appropriations for these funds lapse at year end.

**C. Deposits & Investment Laws & Regulations**

The City has no formal deposit and investment policies; however, the City is required to follow certain state statutes with respect to authorized investment and deposit procedures. See Note 3 with respect to these general requirements.

**NOTE 3 – CASH & CASH EQUIVALENTS**

The City of New Market has no formal policies with respect to deposits and investments; however, the City is required to follow procedures regarding deposits and authorized investments which are allowed by applicable state laws. For the City of New Market, TCA Code Section 6-56-106 prescribes the authorized investments for municipalities in the State of Tennessee. With respect to deposits, the State of Tennessee requires that all deposits in financial institutions be collateralized by securities whose market value is equal to 105% of the value of the uninsured deposits. The financial institution deposits must be covered by federal depository insurance or the Tennessee Collateral Bank Pool, by collateral held by the City's

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

agent in the City's name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2015, the carrying amount of the City's deposits was \$82,609 and the respective bank balances totaled \$88,839. The difference between the two amounts represented deposits in transit, outstanding checks, or other reconcilable items. As of June 30, 2015, the total bank balances of \$88,839 were covered by either F.D.I.C. insurance or by collateral pledged as part of the financial institutions participation in the Tennessee Collateral Bank Pool.

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that in the event of bank failure, the City would not be able to recover deposits or collateral securities that are in the possession of an outside party. As previously noted, all deposits were either covered by F.D.I.C. Insurance, collateral pledged as part of the financial institutions participation in the Tennessee Collateral Pool or with collateralized securities held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents.

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b><u>Governmental Activities</u></b>				
Capital Assets Not Being Depreciated:				
Land	\$ 69,474	\$ -	\$ -	\$ 69,474
Total Capital Assets Not Being Depreciated	69,474	-	-	69,474
Capital Assets Being Depreciated:				
Buildings and Improvements	180,958	-	9,772	190,730
Machinery and Equipment	282,973	9,772	-	273,201
Vehicles	213,551	-	-	213,551
Total Capital Assets Being Depreciated	677,482	9,772	9,772	677,482
Less: Accumulated Depreciation for:				
Buildings and Improvements	(52,307)	(19,197)	-	(71,504)
Machinery and Equipment	(202,705)	-	(13,169)	(189,536)
Vehicles	(125,819)	(35,427)	-	(161,246)
Total Accumulated Depreciation	(380,831)	(54,624)	(13,169)	(422,286)
Total Capital Assets Being Depreciated (net)	296,651	(44,852)	3,397	255,196
<b>Governmental Activities Capital Assets     (net)</b>	<b>\$ 366,125</b>	<b>\$ (44,852)</b>	<b>\$ 3,397</b>	<b>\$ 324,670</b>

**CITY OF NEW MARKET, TENNESSEE**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2015**

**NOTE 5 – RISK ASSESSMENT**

The City purchases commercial insurance to cover risks of loss related to torts, theft of, damage to, and destruction of assets; natural disasters; errors and omissions; injuries to employees; and the employees' health plan. For the current year, there have been no significant reductions in insurance coverage. Liabilities or settlements in excess of insurance coverage are reported when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. With regards to risk management, there were no settlement amounts which exceeded insurance coverage for the current year or the three prior years.

**NOTE 6 – PAYROLL TAXES**

The City has a liability for payroll taxes that were not paid and date back to 2010. The current amount owed is \$216,585 but this amount does not include penalties and interest that have accrued. The IRS has agreed that the City can pay \$1,000 per month until all taxes, penalties and interest have been paid. The agreement began in August 2014 and the City made all required payments during the fiscal year.

**NOTE 7 – SUBSEQUENT EVENTS**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through August 24, 2017, the date the financial statements were available to be issued.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE**  
**- BUDGET & ACTUAL-**  
**GENERAL FUND**  
**For the Year Ended June 30, 2015**

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget - Positive
<b>REVENUE</b>				
<b>Taxes</b>				
Local Option Sales Tax	\$ 57,000	\$ 57,000	\$ 72,153	\$ 15,153
Wholesale Beer Tax	16,600	16,600	14,220	(2,380)
<b>Total Taxes</b>	<b>73,600</b>	<b>73,600</b>	<b>86,373</b>	<b>12,773</b>
<b>Intergovernmental Revenue</b>				
State Sales Tax	96,000	96,000	101,033	5,033
State Income Tax	6,000	6,000	12,730	6,730
State Beer Tax	650	650	638	(12)
State Street Aid	3,000	3,000	4,558	1,558
State Gas Tax	35,000	35,000	35,220	220
TVA in Lieu	11,550	11,550	15,461	3,911
State Pay Supplement	2,400	2,400	1,200	(1,200)
Telecommunication Tax	-	-	131	131
State Mowing Contract	24,000	24,000	21,239	(2,761)
<b>Total Intergovernmental Revenue</b>	<b>178,600</b>	<b>178,600</b>	<b>192,210</b>	<b>13,610</b>
<b>Fines &amp; Forfeitures</b>				
City Court Fines	97,000	97,000	68,970	(28,030)
Session Court Fines	5,000	5,000	2,143	(2,857)
<b>Total Fines &amp; Forfeitures</b>	<b>102,000</b>	<b>102,000</b>	<b>71,113</b>	<b>(30,887)</b>
<b>Other Revenue</b>				
Cable TV Franchise Tax	9,300	9,300	8,354	(946)
Other Revenue	30,390	30,390	12,737	(17,653)
<b>Total Other Revenue</b>	<b>39,690</b>	<b>39,690</b>	<b>21,091</b>	<b>(18,599)</b>
<b>TOTAL REVENUES</b>	<b>\$ 393,890</b>	<b>\$ 393,890</b>	<b>\$ 370,787</b>	<b>\$ (23,103)</b>
<b>EXPENDITURES</b>				
<b>General Government</b>				
Mayor/Council Wages	\$ 14,000	\$ 14,000	\$ 14,278	\$ (278)
Recorder's Salary	15,000	15,000	12,158	2,842
Payroll Taxes	18,000	18,000	24,449	(6,449)
Election Expenses	1,000	1,000	116	884
Office Supplies	2,500	2,500	1,984	516
Attorney Fees	6,000	6,000	1,280	4,720
Building Department	9,000	9,000	5,602	3,398
Senior Citizens	3,700	3,700	2,292	1,408
Utilities	20,000	20,000	15,016	4,984
Audit Fees	11,000	11,000	10,000	1,000
Insurance and Bonds	22,000	22,000	21,034	966
Building Repairs and Maintenance	2,900	2,900	1,464	1,436
Publications and Dues	1,000	1,000	746	254
Other Expenses	3,600	3,600	7,608	(4,008)
<b>Total General Government</b>	<b>129,700</b>	<b>129,700</b>	<b>118,027</b>	<b>11,673</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE**  
**- BUDGET & ACTUAL -**  
**GENERAL FUND**  
**For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		
<b>Public Safety - Police</b>				
Salaries/Wages	94,000	94,000	106,807	(12,807)
Equipment Expense	2,000	2,000	8,792	(6,792)
Uniforms	500	500	3,242	(2,742)
Supplies	1,600	1,600	433	1,167
Telephone/Telecommunications	4,000	4,000	1,448	2,552
Vehicle Fuel	10,000	10,000	7,947	2,053
Other Expenses	2,600	2,600	974	1,626
<b>Total Public Safety - Police</b>	<b>114,700</b>	<b>114,700</b>	<b>129,643</b>	<b>(14,943)</b>
<b>Public Safety - Fire</b>				
Fire Hydrant Expense	1,040	1,040	1,040	-
Fire Department Contribution	13,000	13,000	13,000	-
<b>Total Public Safety - Fire</b>	<b>14,040</b>	<b>14,040</b>	<b>14,040</b>	<b>-</b>
<b>City Court</b>				
Judge's Salary	6,000	6,000	5,931	69
Court Clerk's Salary	11,000	11,000	9,556	1,444
Mileage Reimbursement	750	750	214	536
Litigation Taxes	9,300	9,300	6,044	3,256
Credit Card Fees	4,300	4,300	4,125	175
<b>Total City Court</b>	<b>31,350</b>	<b>31,350</b>	<b>25,870</b>	<b>5,480</b>
<b>Public Works</b>				
Maintenance Salaries	\$ 48,000	\$ 48,000	\$ 54,100	\$ (6,100)
Equipment Expense	8,000	8,000	2,938	5,062
Vehicle Fuel	7,100	7,100	3,593	3,507
Other Expenses	1,000	1,000	1,899	(899)
<b>Total Public Works</b>	<b>64,100</b>	<b>64,100</b>	<b>62,530</b>	<b>1,570</b>
<b>State Street Aid</b>				
Street Lighting	4,000	4,000	3,480	520
Telephone/Telecommunications	1,600	1,600	1,143	457
Vehicle Repair and Maintenance	14,800	14,800	2,077	12,723
Vehicle Fuel	7,100	7,100	6,534	566
Uniforms	2,500	2,500	(932)	3,432
Contract Work	1,000	1,000	-	1,000
Street Repair and Maintenance	4,000	4,000	1,009	2,991
<b>Total State Street Aid</b>	<b>35,000</b>	<b>35,000</b>	<b>13,311</b>	<b>21,689</b>
<b>Recreation</b>				
Utilities	-	-	676	(676)
Other Expenses	5,000	5,000	221	4,779
<b>Total Recreation</b>	<b>5,000</b>	<b>5,000</b>	<b>897</b>	<b>4,103</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 393,890</b>	<b>\$ 393,890</b>	<b>\$ 364,318</b>	<b>\$ 29,572</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES, & CHANGES IN FUND BALANCE**  
**- BUDGET & ACTUAL -**  
**GENERAL FUND**  
**For the Year Ended June 30, 2015**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final		
<b>Excess (Deficiency) of Revenue Over (Under)</b>				
<b>Expenditures</b>	\$ -	\$ -	\$ 6,469	\$ 6,469
<b>FUND BALANCE - BEGINNING</b>	118,441	118,441	118,441	-
<b>FUND BALANCE - ENDING</b>	<b>\$ 118,441</b>	<b>\$ 118,441</b>	<b>\$ 124,910</b>	<b>\$ 6,469</b>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE**  
**-BUDGET & ACTUAL-**  
**DRUG FUND**  
**For the Year Ended June 30, 2015**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUE</b>				
Drug Fund	\$ -	\$ -	\$ 4,209	\$ 4,209
Total Revenue	\$ -	\$ -	\$ 4,209	\$ 4,209
<b>EXPENDITURES</b>				
<b>Drug Fund</b>				
Supplies	\$ -	\$ -	\$ -	\$ -
Total Expenditures	-	-	-	-
Revenues Over (Under) Expenditures	\$ -	\$ -	\$ 4,209	\$ 4,209
<b>Other Financing Sources (Uses)</b>				
Operating Transfer from General Fund	\$ -	\$ -	\$ -	\$ -
Net Change in Fund Balance	-	-	4,209	4,209
Fund Balance, July 1, 2014	-	-	1,394	1,394
Fund Balance, June 30, 2015	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,603</u>	<u>\$ 5,603</u>

The accompanying notes to financial statements are an integral part of this statement.

**CITY OF NEW MARKET, TENNESSEE**  
**SCHEDULE OF INSURANCE IN FORCE**  
**June 30, 2015**

General liability	\$1,000,000 each occurrence \$100,000 damage to property \$10,000 medical expense \$1,000,000 personal injury
Workers Compensation	Statutory
Business Automobile	\$1,000,000 bodily injury & property damage
Public Officials Liability	\$1,000,000 errors or omissions

**DAVID M. ELLIS**

*Certified Public Accountant*

*Member, American Institute of  
Certified Public Accountants*

*Member, Tennessee Society of  
Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and Aldermen  
City of New Market  
New Market, Tennessee

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major of City of New Market, Tennessee, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise City of New Market, Tennessee's basic financial statements and have issued my report thereon dated August 24, 2017.

**Internal Control over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the City of New Market, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of New Market, Tennessee's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of New Market, Tennessee's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. I did identify a certain deficiency in internal control, described in the accompanying schedule of findings and recommendations that I consider to be a material weakness. 2015-009.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of New Market, Tennessee's financial statements are free from material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed several instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. 2015-001, 2015-002, 2015-003, 2015-004, 2015-005, 2015-006, 2015-007, 2015-008 and 2015-010.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



David M. Ellis, CPA  
Greeneville, Tennessee  
August 24, 2017

**CITY OF NEW MARKET, TENNESSEE**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**June 30, 2015**

**Financial Statement Findings**

**Current Year Findings:**

**2015-001 Three Day Deposit Rule**

*Condition:* Funds are received and held until a large deposit is accumulated before remitting to the bank.

*Criteria:* The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5, Chapter 11, Section 1, states:

“Municipal officials should ensure that collections are deposited daily, if possible, but no more than three business days after the initial collection, as required by state law.”

*Effect:* Timely deposit of funds received helps safeguard assets and ensures controls are in place.

*Recommendations:* Management should create procedures to ensure funds are deposited within three days of receipt.

*Management Comment:* Due to the small size of the City and the size of the staff, timely deposits of small amounts are difficult to make but management will try to implement additional safeguards to make deposits as soon as possible after receipt.

**2015-002 Bank Account Reconciliations**

*Condition:* As part of examining bank account reconciliations prepared by the Town’s staff, it was discovered that the June 30, 2015, reconciled balance did not agree with the general ledger for any bank account. The difference included multiple unrecorded transactions.

*Criteria:* The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 5 Chapter 2 Section 2states:

“Municipal officials should ensure that a management level employee periodically reviews: bank statements and the related reconciliations to determine that they are accurate and all activity is authorized and properly recorded.”

*Effect:* Bank accounts that are not reconciled accurately are more susceptible to errors and irregularities that are not discovered in the normal courses of business.

**CITY OF NEW MARKET, TENNESSEE**  
**SCHEDULE OF FINDINGS AND RECOMMENDATIONS**  
**June 30, 2015**

*Recommendation:* Management should accurately reconcile each month to the balance in the general ledger subsequent to completion of the City's operations for that month. Any differences should be thoroughly investigated, resolved, and documented. Proper and timely bank reconciliations will minimize the possibility of mistakes caused by either the bank or the City from being overlooked.

*Managements Comments:* Management concurs. The QuickBooks reconciliation feature will be implemented to perform bank reconciliations on a monthly basis.

**2015-003 Invoice Cancellation:**

*Condition:* Invoices are paid without the account to be charged indicated on them.

*Criteria:* The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 19 Section 3 states:

“that personnel cancel each page of supporting documentation, including purchase authorizations/orders before the checks and documentation are submitted for approval and signing. Supporting documents should be canceled by writing the check number, amount, payment date, and account to be charged on the first page of documentation and stamping “PAID” on all other pages.”

*Cause:* City policy had not previously dictated that this procedure be followed.

*Effect:* Invoices could be paid more than once or charged to the wrong account.

*Recommendation:* The city should cancel invoices based on the requirements in the Internal Control and Compliance Manual for Tennessee Municipalities.

*Management's Comments:* Management concurs and will implement the above procedures.

**2015-004 Capital Asset Records Not Properly Maintained**

*Condition:* Fixed assets are not properly recorded and depreciated when purchased and no annual review is performed.

*Criteria:* The Internal Control and Compliance Manual for Tennessee Municipalities Title 5 Chapter 24 Section 1 states:

“Municipal officials should require that all capital assets be identified (tagged or marked), and recorded immediately following the purchase of such items. Vehicles and equipment (backhoes, mowers, etc.) should

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have the municipality's name or seal clearly displayed. The asset record should be retained at the municipality and should include up-to-date purchase and disposal information. An annual physical inventory should be performed, documented, and reconciled to the property records. Capital assets acquired with grant funds should be adequately identified."

*Cause:* No procedures have been implemented to ensure proper recording and upkeep of capital assets as they are purchased or disposed of.

*Effect:* Depreciation is not being recorded and fixed assets could be misappropriated if not regularly reviewed and accounted for.

*Management's Comments:* Management concurs and will implement the above procedures.

**2015-005 Preparation of Financial Statements and Related Note Disclosures**

*Condition:* As part of the audit, the auditors prepared the financial statements, related notes, and supplementary information from information provided by the City's personnel.

*Criteria:* Under current professional standards, the City is responsible for the internal control process which includes the preparation of fiscal year-end financial statements in accordance with accounting principles generally accepted in the United States of America. The financial statement preparation process should be performed in a manner such that there is only a remote likelihood that a misstatement of the City's financial statements, that is more than inconsequential, will not be prevented or detected.

*Effect:* Personnel of the City are not currently preparing GAAP financial statements for audit or for review by their Mayor and aldermen. This disallows them from getting complete and accurate financial information on a timely basis.

*Recommendation:* Monthly and annual financial statements should be reviewed by the mayor and aldermen so they are fully informed about the finances of the City.

*Management's Comments:* Management concurs and is working to get these things in order and will comply.

**2015-006 Incomplete and Unsigned Board of Director's Meeting Minutes**

*Condition:* Minutes taken at board meetings are not signed and often not read at subsequent meeting.

*Criteria:* The Internal Control and Compliance Manual for Tennessee Municipalities Title 4 Chapter 2 Section 4 states:

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“Municipal officials should ensure that complete minutes of actions taken by the governing body are maintained at the municipal office. The official minutes should be signed and kept together in date order and be easily accessible.”

*Cause:* Due to the small size of the City and the tendency for informality, proper procedures are not followed to sign the official meeting minutes and read at next scheduled meeting.

*Effect:* Complete minutes of actions taken by the board are not being properly documented and approved.

*Recommendation:* Meeting minutes should be signed showing approval by the secretary and include all discussions that occurred and these minutes should be read at the subsequent meeting to verify accuracy.

*Management's Comments:* Management concurs and will begin to formalize meeting minutes to meet established criteria.

**2015-007 Utilization of Accounting Software**

*Condition:* The accounting software is not being utilized properly on a daily basis to facilitate reconciliations between accounts receivable and payable control accounts and subsidiary ledgers.

*Criteria:* The City's personnel should completely and accurately reconcile all accounts receivable and accounts payable control accounts and subsidiary ledgers on a monthly basis.

*Effect:* General ledger accounts that are not reconciled accurately are more susceptible to errors and irregularities that are not discovered in the normal course of business.

*Recommendation:* Management should accurately reconcile accounts receivable and accounts payable each month to the balance in the general ledger subsequent to completion of the City's operations for that month. Any differences should be thoroughly investigated, resolved, and documented. Proper and timely reconciliations will minimize the possibility of mistakes in financial reporting. The functions built into QuickBooks software are excellent tools to accomplish this.

*Managements Comments:* Management concurs. Management will complete the implementation of the receivables and payables software functions to the general ledger.

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**2015-008 Audit Adjustments Were Required for Proper Financial Statement Presentation**

*Condition:* At June 30, 2015, certain general ledger accounts were materially incorrect, and significant audit adjustments were required for the financial statements to be free of misstatements at year-end.

*Criteria:* To generate a financial statement that is presented in accordance with generally accepted accounting principles, the City must have adequate internal controls over the maintenance of its accounting records.

*Effect:* The Town's financial reporting system did not prevent, detect, or correct potential misstatements in the accounting records.

*Recommendation:* The City should have appropriate processes in place to ensure that its general ledger and financial statements generated are accurate.

*Managements Comments:* Management concurs. Controls will be implemented to avoid significant errors in the underlying accounting records.

**2015-009 Lack of Separation of Duties**

*Condition:* One employee receives collections, records collections, prepares deposits, and reconciles the bank statement.

*Criteria:* The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 1, Section 4, states:

“Municipal officials should enforce division of duties to provide a system of checks and balances so that no one person has control over a complete transaction from beginning to end. Workflow should be established so that one employee's work is automatically verified by another employee working independently...”

*Effect:* The result of one employee handling an entire accounting transaction is the danger that intentional or unintentional errors could be made and not be detected.

*Recommendation:* To the extent possible, segregate the duties of preparing the bank deposit separate from the duty of collecting receipts and reconciling monthly bank statements.

*Management's Comments:* This will be an ongoing problem since the City only has one office employee. Management will continue to monitor and discuss ways that the Mayor and Aldermen could be involved in this process.

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**2015-010 State Street Aid Funds**

*Condition:* For the year ending June 30, 2015, the State Street Aid fund balance is \$190,673. There is not enough cash in the bank to cover this.

*Criteria:* State Street Aid Funds are to be used strictly for certain expenses that are set forth in state guidelines. Monies for State Street Aid should be retained by the City until they are spent on appropriate items.

*Cause:* The Town has been using State Street Aid money to cover general operating expenses.

*Recommendation:* The Town should put a plan in place on how to accumulate funds to cover the State Street Aid balance.

*Management Comment:* Management concurs.

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**Financial Statement Findings**

<b>Finding Number</b>	<b>Finding Title</b>	<b>Status</b>
2015-001	Three Day Deposit Rule (original finding 2014-001)	Still applies
2015-002	Bank Account Reconciliations (original finding 2014-002)	Still applies
2015-003	Invoice Cancellation (original finding 2014-003)	Still applies
2015-004	Capital Asset Records Not Properly Maintained (original finding 2014-004)	Still applies
2015-005	Preparation of Financial Statements and Related Note Disclosures (original finding 2014-005)	Still applies
2015-006	Incomplete and Unsigned Board of Director's Meeting Minutes (original finding 2014-006)	Still applies
2015-007	Utilization of Accounting Software (original finding 2014-007)	Still applies
2015-008	Audit Adjustments Were Required for Proper Financial Statement Presentation (original finding 2014-008)	Still applies
2015-009	Lack of Separation of Duties (original finding 2014-009)	Still applies
2015-010	State Street Aid Funds (original finding 2014-010)	Still applies